

Message Text

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ORIGIN NEA-10

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INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 HUD-01 ACDA-07
IGA-02 /112 R

DRAFTED BY NEA/EGY:CAKENNEDY:SEB

APPROVED BY NEA/EGY:DONEWBERRY

-----101842Z 109188 /53

R 101624Z MAR 77

FM SECSTATE WASHDC

TO AMEMBASSY CAIRO

INFO AMEMBASSY ABU DHABI

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

C O N F I D E N T I A L STATE 053238

E.O. 11652: GDS

TAGS: OVIP (KAISSOUNI) EFIN, EAID, EG US

SUBJECT: KAISSOUNI VISIT AT STATE DEPARTMENT, WEDNESDAY,
MARCH 3.

1. DEPUTY PRIME MINISTER (DPM) KAISSOUNI AND PARTY, INCLUDING AMBASSADOR GHORBAL, CALLED ON ASSISTANT SECRETARY ATHERTON, ASSISTANT ADMINISTRATOR NOOTER AND OTHER STATE-AID OFFICERS IN AFTERNOON ON MARCH 3 FOR MEETING LASTING ALMOST TWO HOURS. NEA OPENED MEETING BY EXPRESSING OUR PLEASURE AT HAVING AN OPPORTUNITY FOR THOSE DIRECTLY INVOLVED IN EGYPTIAN ECONOMIC AFFAIRS TO MEET WITH DPM AND HIS PARTY. DPM SAID HE ALSO WELCOMED OPPORTUNITY.

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2. DPM GAVE OVERVIEW OF ECONOMIC SITUATION AND EGYPTIAN EFFORTS TO DEAL WITH PROBLEMS. SINCE NOVEMBER, NEW ECONOMIC GROUP HAS BEEN SEIZED WITH ECONOMIC PROBLEMS IN DISCUSSIONS WITH IMF AND OTHERS, SORTING OUT PROBLEMS AND APPROACHES. THEIR MAJOR CONCERNS ARE THE LOW RATE OF ECONOMIC GROWTH AND RATE OF POPULATION INCREASE. THEY HAVE SETTLED ON A GLOBAL,

ACROSS ECONOMIC BOARD, APPROACH RATHER THAN SEPARATION INTO INDIVIDUAL COMPONENTS FOR SPECIAL ATTENTION. THIS APPROACH IS SUPPORTED BY PRESIDENT SADAT, THE CABINET, ARAB DONORS, AND OTHERS. THE RIOTS RESULTED FROM MOVING TOO FAR TOO FAST. EGYPT WILL HAVE TO MOVE MORE SLOWLY BUT IS DETERMINED

TO ACCOMPLISH ECONOMIC OBJECTIVES WITH HELP FROM ITS FRIENDS. KAISOUNI AND HIS TEAM RECOGNIZE THE IMPORTANCE OF IMF AGREEMENT FOR ACTUAL REFORMS IT WOULD INTRODUCE AND THEIR IMPACT ON DONORS. FULL SUPPORT OF IMF IS NEEDED.

3. WITH REGARD TO WORLD BANK, EGYPT NEEDS EXPANDED PROGRAMS AND SOFTER TYPE LOANS. KAISOUNI SAID THAT ME-GUID OF INVESTMENT AUTHORITY WAS ALSO IN TOWN TO PRESENT EGYPTIAN PAPERS TO WORLD BANK FOR CONSULTATIVE GROUP (CG) MEETING. HE ALSO SAID THAT A REVISED ECONOMIC PLAN FOR EGYPT MAY BE AVAILABLE SOON. GOE ECONOMIC PRIORITIES WERE GIVEN AS FOLLOWS:

- A) INFRA-STRUCTURE (A PUBLIC SECTOR ENDEAVOR);
- B) AGRO-INDUSTRIAL DEVELOPMENT (LEFT LARGELY TO PRIVATE SECTOR);
- C) HOUSING (PUBLIC SECTOR TO CONCENTRATE ON LOW-INCOME HOUSING; PRIVATE SECTOR TO CONCENTRATE ON REMAINDER).

COMMENT: DURING THIS DISCUSSION MINISTER OF ECONOMY ASKED US FOR OUR VIEWS RE PURPOSE AND FUNCTION OF CG. WE WERE SOMEWHAT SURPRISED AT APPARENT NAIVETE EXPRESSED BY EGYPTIANS. WHILE WE GAVE THEM BRIEF OUTLINE OF HOW OTHER CG'S HAD FUNCTIONED, WE ASSUME WORLD BANK WILL BRIEF THEM

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MORE FULLY.

4. KAISOUNI SEES MAJOR BOTTLE-NECKS TO ECONOMIC DEVELOPMENT FROM INADEQUATE CONSTRUCTION INDUSTRY AND LOCAL CURRENCY COMPONENT FOR PROJECTS. WITH REGARD TO LATTER POINT, EGYPTIANS EMPHASIZED IMPORTANCE OF COMMODITY-TYPE LOANS, ESPECIALLY NOW WITH NEW CREDIT CEILING, SINCE THESE LOANS GENERATE LOCAL CURRENCY.

5. ON THE SUBJECT OF AID, EGYPTIANS ARE LOOKING FOR ABOUT \$1.5 BILLION FROM ARAB COUNTRIES TO ALLEVIATE SHORT-TERM DEBT PROBLEMS AND \$1.5 BILLION FROM GODE IN MORE LIQUID FORM TO HELP TO INCREASE USE OF IDLE CAPACITY. IN ADDITION, THEY ARE LOOKING TO VARIOUS ARAB FUNDS (KUWAITI DEVELOPMENT FUND, SAUDI DEVELOPMENT FUND, ETC.) FOR LONG-TERM LOANS. BESIDES AID FROM THE IMF, THE WORLD BANK, AND U.S., EGYPTIANS ALSO HOPEFUL OF RECEIVING MORE AID FROM IRAN (NOTHING YET), WESTERN EUROPE (SO FAR AID HAS BEEN LIMITED AND NOT SO CONCESSIONAL) AND JAPAN.

6. KAISOUNI NOTED THAT PEACE IN THE AREA WOULD REDUCE NEED FOR MILITARY EXPENDITURES AND ELIMINATE THE BOYCOTT.

NEA SAID THESE SAME SENTIMENTS HAVE BEEN EXPRESSED BY ISRAELIS AND OTHER COUNTRIES IN THE AREA.

7. KAISOUNI EXPRESSED THE HOPE THAT THE U.S. COULD CONTINUE AND EVEN INCREASE ITS AID. HE SAID IT WAS IMPORTANT TO STIMULATE THE ECONOMY AND TO CONVINCE THE PEOPLE OF EGYPT TO FOCUS ON REAL ECONOMIC ISSUES, NOT JUST FOOD. PEOPLE HAVE TO BE EDUCATED ABOUT ECONOMIC CIRCUMSTANCES. PATIENCE WILL COME WITH DEMONSTRATED RESULTS. INCREASED ECONOMIC ACTIVITY WILL LEAD TO A REDUCTION OF SUBVERSIVE IDEAS IN SEGMENTS OF EGYPTIAN POPULATION AND OTHER COUNTRIES IN THE AREA. USG REPRESENTATIVES ADVISED DR. KAISOUNI THAT CONGRESS HAS ASKED HARD QUESTIONS ABOUT EGYPT'S CONFIDENTIAL

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ECONOMIC SITUATION. SPECIFICALLY, CONGRESS WANTS TO KNOW WHAT IS BEING ACCOMPLISHED WITH ALL OUR, AND OTHER'S, AID TO EGYPT. WE NEED MORE FACTS ON EGYPT'S COMPREHENSIVE APPROACH IN ORDER TO RESPOND TO THESE TYPES OF QUESTIONS. WE ARE IN AGREEMENT WITH KAISOUNI'S ECONOMIC STRATEGY AND ARE SYMPATHETIC TO EGYPT'S POLITICAL CONSTRAINTS. WE EXPECT TO KEEP OUR AID LEVELS HIGH AND EGYPT CAN HELP US BY RAISING THE AID UTILIZATION RATE. WE ARE WORKING ON THIS PROBLEM TOO. WE ALSO SAID THAT IN OUR OPINION THE CG WAS WORTH THE TIME AND EFFORT REQUIRED.

8. DURING THE DISCUSSIONS KAISOUNI REMARKED THAT THERE WAS NOT MUCH LEFT OF EGYPT'S MILITARY DEBT. HE SAID IT WAS DOWN TO ABOUT \$2 BILLION. THE HIGH DAM AND FACTORIES ARE PAID FOR AND THE MILITARY DEBT HAS BEEN REDUCED THROUGH EGYPT'S FAVORABLE BALANCE OF TRADE WITH THE SOVIETS.

COMMENT: MINECON TOLD NEA/EGY LATER THAT MILITARY DEBT WAS NOW ABOUT LE 1.6-1.7 BILLION. THIS CONVERTS TO \$4.1-4.3 BILLION AT OFFICIAL EXCHANGE RATE. MINECON ALSO SAID THAT CURRENT EGYPTIAN DEFENSE EXPENDITURES FROM EGYPTIAN RESOURCES WERE RUNNING AT ABOUT 20 PERCENT OF GDP. WITH ESTIMATED GDP OF \$12 BILLION, DEFENSE EXPENDITURES WOULD BE \$2.4 OR ALMOST LE ONE BILLION.

9. KAISOUNI WAS ASKED WHEN HE EXPECTED THAT AID WOULD BE USED MORE FOR PRODUCTIVE INVESTMENT RATHER THAN CONSUMPTION GOODS. KAISOUNI RESPONDED THAT EGYPT WOULD REQUIRE HIGH LEVELS OF ASSISTANCE FOR FOUR TO FIVE YEARS. IN HIS OPINION, IT WOULD TAKE THIS LONG TO OVERCOME CONSTRAINTS IN THE CONSTRUCTION INDUSTRY AND LOCAL CURRENCY COMPONENT.

HE EXPRESSED HIS HOPE THAT PENDING CHANGES IN FOREIGN INVESTMENT AND OTHER LAWS WOULD ENCOURAGE NEW CAPITAL INFLOWS. THE ECONOMIC TEAM IS ALSO STUDYING INCENTIVES TO REVISE AND EXPAND A CAPITAL MARKET IN EGYPT. EL-SAYEH MADE THE POINT THAT IT'S IMPORTANT TO MAKE INVESTMENT

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ATTRACTIVE TO EGYPTIANS TOO. KAISSOUNI SAID THAT THE ARABS, ESPECIALLY THE SAUDIS, WERE AWARE OF THE CONSTRAINTS AND SAID THEY WERE MORE DISPOSED TO PLANNING THEIR ASSISTANCE FOR A LONGER PERIOD OF TIME THAN THEY HAVE IN THE PAST.

9. THE MEETING WAS WARM AND FRIENDLY WITH A CANDID EXCHANGE OF VIEWS BY BOTH SIDES.

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Message Attributes

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Disposition Approved on Date:
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Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Original Handling Restrictions: n/a
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Review Transfer Date:
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SAS ID: 3147993
Secure: OPEN
Status: NATIVE
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TAGS: OVIP, EFIN, EAID, EG, US
To: CAIRO
Type: TE
vdkgvwkey: odbs://SAS/SAS.dbo.SAS_Docs/36f23dba-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009